

VILLAGE OF DOUGLAS
FINANCIAL STATEMENTS
JUNE 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name VILLAGE OF DOUGLAS	County ALLEGAN
Audit Date 6/30/04	Opinion Date 10/21/04	Date Accountant Report Submitted to State: 12/27/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)
FERRIS, BUSSCHER & ZWIERS, P.C.

Street Address
675 E. 16TH STREET, STE 100

City
HOLLAND

State
MI

ZIP
49423

Accountant Signature

Douglas W. Rotman C.P.A.

Date
12/27/04

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October 21, 2004

Village Council
Village of Douglas, Michigan

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the Village of Douglas, as of and for the year ended June 30, 2004, as listed in the index. These basic financial statements are the responsibility of the management of the Village of Douglas. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Village of Douglas as of June 30, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 13, the Village of Douglas adopted the provisions of Governmental Accounting Standards Board Statements Nos. 33, 34, 36, 37, 38, 40, 41 and GASB Interpretation 6 as of and for the year ended June 30, 2004. This results in a change to the Village of Douglas' method of accounting for certain nonexchange revenues and in the format and content of the basic financial statements.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Management has elected to omit the Management's Discussion and Analysis from the required supplementary information.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining financial statements listed in the index are presented for purpose of additional analysis and are not a required part of the basic financial statements of the Village of Douglas. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

Ferris, Busscher & Zwiars, P.C.

FERRIS, BUSSCHER & ZWIERS, P.C.
Certified Public Accountants
Holland, Michigan

BASIC FINANCIAL STATEMENTS

VILLAGE OF DOUGLAS
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Primary <u>Government</u>
	Governmental <u>Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,065,208
Receivables, net	761,548
Prepays and other assets	14,787
Capital assets	
Land	50,000
Construction in progress	145,149
Other capital assets, net of depreciation	<u>713,067</u>
TOTAL ASSETS	<u>\$ 2,749,759</u>
LIABILITIES	
Accounts payable and accrued expenses	\$ 148,603
Long-term liabilities	
Due within one year	98,006
Due in more than one year	<u>424,000</u>
TOTAL LIABILITIES	<u>\$ 670,609</u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ 454,390
Restricted for	
Major Streets	64,788
Local Streets	163,757
General Highway	630,322
Sewer Bond	72,170
Unrestricted	<u>693,723</u>
TOTAL NET ASSETS	<u>\$ 2,079,150</u>

VILLAGE OF DOUGLAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

FUNCTIONS/PROGRAMS	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
PRIMARY GOVERNMENT			
Governmental activities			
Legislative	\$ 7,678	\$ -	\$ -
General government	449,640	13,375	-
Public safety	818,166	363,872	5,433
Public works	235,809	251,217	122,514
Recreation and cultural	96,426	17,297	21,363
Interest on long-term debt	<u>24,614</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 1,632,333</u>	<u>\$ 645,761</u>	<u>\$ 149,310</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 1,632,333</u>	<u>\$ 645,761</u>	<u>\$ 149,310</u>
General revenues			
Taxes			
Property taxes, levied for general purposes			
Property taxes, levied for debt service			
Property taxes, levied for roads			
State shared revenues			
Unrestricted investment income			
Miscellaneous			
Sale of land repurchase rights			

 Total general revenues

CHANGE IN NET ASSETS

NET ASSETS - JULY 1, 2003

NET ASSETS - JUNE 30, 2004

<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue Governmental Activities</u>
\$ -	\$ (7,678)
-	(436,265)
-	(448,861)
-	137,922
28,925	(28,841)
<u>-</u>	<u>(24,614)</u>
<u>\$ 28,925</u>	<u>\$ (808,337)</u>
<u>\$ 28,925</u>	<u>\$ (808,337)</u>

\$ 555,373
 41,155
 459,766
 107,975
 10,273
 24,522
60,000

\$ 1,259,064

\$ 450,727

1,628,423

\$ 2,079,150

VILLAGE OF DOUGLAS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>General Highway</u>	<u>Water and Sewer Revolving</u>
ASSETS			
Cash and cash equivalents	\$ 54,846	\$ 646,420	\$ -
Receivables, net	-	-	27,493
Receivables from other governments	50,818	-	404,445
Prepaid expenditures	<u>14,787</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 120,451</u>	<u>\$ 646,420</u>	<u>\$ 431,938</u>
LIABILITIES			
Bank overdraft	\$ -	\$ -	\$ 44,900
Accounts payable and accrued expenses	45,705	16,098	-
Payables to other governments	13,892	-	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>27,493</u>
TOTAL LIABILITIES	<u>\$ 59,597</u>	<u>\$ 16,098</u>	<u>\$ 72,393</u>
FUND BALANCES			
Unreserved			
Undesignated	\$ 60,854	\$ 630,322	\$ 359,545
Reserved	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUND BALANCES	<u>\$ 60,854</u>	<u>\$ 630,322</u>	<u>\$ 359,545</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 120,451</u>	<u>\$ 646,420</u>	<u>\$ 431,938</u>

Sewer Bond	Non-Major Funds	Total Governmental Funds
\$ 178,277	\$ 230,565	\$ 1,110,108
-	-	27,493
252,204	20,802	728,269
-	-	14,787
<u>\$ 430,481</u>	<u>\$ 251,367</u>	<u>\$ 1,880,657</u>
\$ -	\$ -	\$ 44,900
-	777	62,580
-	-	13,892
-	-	27,493
<u>\$ -</u>	<u>\$ 777</u>	<u>\$ 148,865</u>
\$ 358,311	\$ 250,590	\$ 1,659,622
72,170	-	72,170
<u>\$ 430,481</u>	<u>\$ 250,590</u>	<u>\$ 1,731,792</u>
<u>\$ 430,481</u>	<u>\$ 251,367</u>	<u>\$ 1,880,657</u>

VILLAGE OF DOUGLAS
 RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
 FOR GOVERNMENTAL FUNDS TO NET ASSETS OF
 GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
 JUNE 30, 2004

Fund balances - Total governmental funds	\$ 1,731,792
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - Capital assets	1,396,895
Deduct - Accumulated depreciation	(488,679)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - Bonds payable	(68,181)
Deduct - Installment notes payable	(453,825)
Deduct - Compensated absences	(69,230)
Deduct - Accrued interest on long-term debt	(2,900)

Tax, special assessment, or other revenues unearned or unavailable in < 60 days for expenditures reported in fund statements.

Add - Receivables	5,785
Add - Deferred revenue	<u>27,493</u>

Net assets of governmental activities	<u>\$ 2,079,150</u>
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VILLAGE OF DOUGLAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>General Highway</u>	<u>Water and Sewer Revolving</u>
REVENUES			
Taxes and special assessments	\$ 555,373	\$ 306,357	\$ -
Licenses and permits	89,094	-	-
State shared revenues	113,212	-	-
Contributions from local units	366,748	-	-
Grant revenue	4,859	-	-
Charges for services	139,076	-	84,721
Fines	5,764	-	-
Interest	1,239	2,011	4,614
Other revenue	<u>5,868</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>\$ 1,281,233</u>	<u>\$ 308,368</u>	<u>\$ 89,335</u>
EXPENDITURES			
Current operating			
Legislative	\$ 7,678	\$ -	\$ -
General government	419,312	-	-
Public safety	788,461	-	-
Public works	74,304	619	11
Recreation and cultural	65,882	-	-
Debt service			
Principal	28,880	-	-
Interest and other charges	16,196	-	-
Capital outlay	<u>3,875</u>	<u>225,369</u>	<u>55,629</u>
TOTAL EXPENDITURES	<u>\$ 1,404,588</u>	<u>\$ 225,988</u>	<u>\$ 55,640</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (123,355)</u>	<u>\$ 82,380</u>	<u>\$ 33,695</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ -	\$ -	\$ -
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SPECIAL ITEM			
Sale of land repurchase rights	<u>\$ 60,000</u>	<u>\$ -</u>	<u>\$ -</u>
NET CHANGE IN FUND BALANCES	\$ (63,355)	\$ 82,380	\$ 33,695
FUND BALANCES - JULY 1, 2003	<u>124,209</u>	<u>547,942</u>	<u>325,850</u>
FUND BALANCES - JUNE 30, 2004	<u>\$ 60,854</u>	<u>\$ 630,322</u>	<u>\$ 359,545</u>

Sewer Bond	Non-Major Funds	Total Governmental Funds
\$ 41,155	\$ 153,409	\$ 1,056,294
-	-	89,094
-	122,515	235,727
-	-	366,748
-	23,140	27,999
-	11,397	235,194
-	-	5,764
1,977	433	10,274
-	14,468	20,336
<u>\$ 43,132</u>	<u>\$ 325,362</u>	<u>\$ 2,047,430</u>
\$ -	\$ -	\$ 7,678
-	-	419,312
-	760	789,221
-	147,078	222,012
-	19,467	85,349
68,181	-	97,061
8,168	-	24,364
-	65,156	350,029
<u>\$ 76,349</u>	<u>\$ 232,461</u>	<u>\$ 1,995,026</u>
<u>\$ (33,217)</u>	<u>\$ 92,901</u>	<u>\$ 52,404</u>
\$ 267,666	\$ -	\$ 267,666
-	(267,666)	(267,666)
<u>\$ 267,666</u>	<u>\$ (267,666)</u>	<u>\$ -</u>
\$ -	\$ -	\$ 60,000
\$ 234,449	\$ (174,765)	\$ 112,404
196,032	425,355	1,619,388
<u>\$ 430,481</u>	<u>\$ 250,590</u>	<u>\$ 1,731,792</u>

VILLAGE OF DOUGLAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Net change in fund balances - Total governmental funds \$ 112,404

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - Capital outlay	350,029
Deduct - Depreciation expense	(85,136)

Debt proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.

Add - Principal payments on long-term liabilities	97,061
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Tax, special assessment, or other revenues unearned or unavailable in < 60 days for expenditures reported in fund statements.	(24,370)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - Change in accrued compensated absences	989
Add - Change in accrued interest on long-term debt	<u>(250)</u>

Change in net assets of governmental activities	\$ <u>450,727</u>
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VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village.

REPORTING ENTITY

The Village is governed by an elected council. The accompanying financial statements present the Village's activities for which the Village is considered to be financially accountable. There are no entities which have significant operation or financial relationships with the Village which should be included as component units.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Village does not have any proprietary or fiduciary funds.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT
PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, state shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The Village's property tax is levied on each July 1st on the taxable valuation of property (as defined by State statutes) located in the Village of Douglas as of the preceding December 31st.

The Village's 2003 ad valorem tax is levied and collectible on July 1, 2003, and it is the Village's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations.

The 2003 taxable valuation of the Village totaled \$82,807,231, on which ad valorem taxes levied consisted of 6.8025 mills for the Village's operating purposes, .5 mills for debt service, and 2.7218 mills for roads raising \$563,296 for operating, \$41,404 for debt service and \$225,385 for roads. These amounts are recognized in the respective General, Debt Service, and Special Revenue Fund financial statements as tax revenue.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The General Highway Fund accounts for the road tax resources and all non-state funded road construction projects.

The Water and Sewer Revolving Fund accounts for water and sewer connection fees for water and sewer improvement paid for by the Village.

Sewer Bond Fund accounts for the accumulation of resources for, and payment of, long-term debt principal, interest, and related costs.

VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Additionally, the Village reports the following fund type:

Special Revenue Funds account for resources specifically accumulated for roads, launch ramps, and various cultural activities.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and conditions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Prepaid Items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in governmental activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$3,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Village is considered a phase 3 government for implementation of GASB 34, therefore has not retroactively capitalized infrastructure.

VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Building improvements	10 to 15 years
Land improvements	10 years
Water and sewer lines	40 years
Roads	20 years
Other infrastructure	10 to 40 years
Vehicles	3 to 10 years
Machinery and equipment	3 to 10 years

Compensated Absences (Vacation and Sick Leave) – It is the Village's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide statement at year-end.

Deferred Revenue – Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

Long-Term Obligations – In the government-wide financial statements and in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Restricted Net Assets – The Village's policy is to first apply restricted resources when an expense is incurred for which restricted and unrestricted net assets are available.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the Village is the department level.

VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Excess of Expenditures Over Appropriations in Budgeted Funds – During the year, the Village of Douglas incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budget Item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>	<u>Variance Favorable (Unfavorable)</u>
General Fund			
General government			
Legal and accounting	\$ 30,440	\$ 33,949	\$ (3,509)
Building and grounds	134,890	157,114	(22,224)
Recreation and cultural			
Community relations	3,100	18,066	(14,966)
Parks and recreation	38,466	47,816	(9,350)
Special Revenue Funds			
General Highway Fund			
Public Works			
Repairs and maintenance	-	619	(619)
Capital projects	194,749	210,586	(15,837)
Water and Sewer Revolving Fund			
Public Works			
Construction	-	55,640	(55,640)
Schultz Park			
Recreation and cultural			
Miscellaneous	3,700	50,765	(47,065)
Union Street			
Recreation and cultural			
Miscellaneous	-	189	(189)
Major Streets			
Public Works			
Contractual administration	1,000	2,143	(1,143)
Rent – general	27,300	42,471	(15,171)
Rent – winter	5,000	20,476	(15,476)
Local Streets			
Public Works			
Traffic signs and services	500	816	(316)
Contractual engineering	5,000	17,196	(12,196)
Repairs and maintenance – general	16,600	29,595	(12,995)
Repairs and maintenance – winter	5,300	7,179	(1,879)
Rent – general	15,500	19,980	(4,480)
Douglas Historic Preservation			
Recreation and cultural			
Miscellaneous	-	7,103	(7,103)

VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Legal Non-Compliance/Violation of Finance Related Provisions – The Village has not adopted a budget for the Water and Sewer Revolving Fund, which is required for all special revenue funds. The expenditures incurred are disclosed above.

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Sections 129.91, authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village of Douglas Council has designated one bank for the deposit of Village funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997. The Village's deposits and investment policy are in accordance with statutory authority.

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Total Primary Government</u>
Cash and cash equivalents	<u>\$ 1,065,208</u>	<u>\$ 1,065,208</u>
Total	<u>\$ 1,065,208</u>	<u>\$ 1,065,208</u>

The breakdown between deposits and investments is as follows:

	<u>Governmental Activities</u>
Bank deposits (checking and savings accounts)	<u>\$ 1,065,208</u>
Total	<u>\$ 1,065,208</u>

The bank balance of the primary government's deposits is \$1,121,507, of which \$100,000 is covered by federal depository insurance and \$1,021,507 is uninsured and uncollateralized.

VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 4 – RECEIVABLES

Receivables as of year-end for the Village's individual major and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	<u>General Fund</u>	<u>General Highway</u>	<u>Water and Sewer Revolving</u>	<u>Sewer Bond</u>	<u>Non-Major and Other Funds</u>	<u>Total</u>
Connection receivables	\$ -	\$ -	\$ 27,493	\$ -	\$ -	\$ 27,493
Intergovernmental	50,818	-	404,445	252,204	20,802	728,269
Less allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net receivables	<u>\$ 50,818</u>	<u>\$ -</u>	<u>\$ 431,938</u>	<u>\$ 252,204</u>	<u>\$ 20,802</u>	<u>\$ 755,762</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Connection fees	\$ 27,493	\$ -
Total	<u>\$ 27,493</u>	<u>\$ -</u>

VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 5 – CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Construction in progress	<u>-</u>	<u>145,149</u>	<u>-</u>	<u>145,149</u>
Subtotal	<u>\$ 50,000</u>	<u>\$ 145,149</u>	<u>\$ -</u>	<u>\$ 195,149</u>
Capital assets being depreciated				
Buildings	\$ 591,424	\$ 3,875	\$ -	\$ 595,299
Improvements other than buildings	60,684	48,460	-	109,144
Machinery and equipment	337,558	7,200	-	344,758
Infrastructure	<u>-</u>	<u>152,545</u>	<u>-</u>	<u>152,545</u>
Subtotal	<u>\$ 989,666</u>	<u>\$ 212,080</u>	<u>\$ -</u>	<u>\$ 1,201,746</u>
Less accumulated depreciation for				
Buildings	\$ 95,595	\$ 35,973	\$ -	\$ 131,568
Improvements other than buildings	46,768	8,005	-	54,773
Machinery and equipment	261,180	39,079	-	300,259
Infrastructure	<u>-</u>	<u>2,079</u>	<u>-</u>	<u>2,079</u>
Subtotal	<u>\$ 403,543</u>	<u>\$ 85,136</u>	<u>\$ -</u>	<u>\$ 488,679</u>
Net capital assets being depreciated	<u>\$ 586,123</u>	<u>\$ 126,944</u>	<u>\$ -</u>	<u>\$ 713,067</u>
Total capital assets – net of depreciation	<u>\$ 636,123</u>	<u>\$ 272,093</u>	<u>\$ -</u>	<u>\$ 908,216</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities	
General government	\$35,132
Public works	13,798
Recreation and cultural	11,075
Public safety	<u>25,131</u>
Total governmental activities	<u>\$85,136</u>

VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Construction Activities

The Village has active construction projects at year-end. The projects include street paving. At year-end the Village's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Street Projects	\$ 145,149	\$ 114,000

NOTE 6 – INTERFUND TRANSFERS

Interfund transfers represent the closing of the Water Bond Fund to the Sewer Bond Fund as follows:

	<u>Operating Transfer In</u>	<u>Operating Transfer Out</u>
Major fund:		
Sewer Bond Fund	\$ 267,666	\$ -
Non-major fund:		
Water Bond Fund	-	<u>267,666</u>
	<u>\$ 267,666</u>	<u>\$ 267,666</u>

NOTE 7 – CAPITAL LEASE

The Village has entered into a lease agreement as lessee for financing the purchase of office computer equipment. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and net present value is as follows:

<u>Year Ended June 30</u>	
2005	\$ 2,812
2006	2,812
2007	<u>469</u>
Total minimum lease payments	\$ 6,093
Less amount representing interest	<u>(670)</u>
Present value	<u>\$ 5,423</u>

VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 8 – LONG-TERM DEBT

The Village issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. County contractual agreements and installment purchase agreements are also general obligations of the Village. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Village is obligated to provide resources to cover the deficiency until other resources (such as tax, sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities							
General obligation bonds							
Allegan County Sewer Disposal Bond	5.75%	5/1/05	\$ 136,362	\$ -	\$(68,181)	\$ 68,181	\$ 68,181
Installment purchase agreements							
Chemical Bank	3.50%	7/4/17	475,505	-	(27,103)	448,402	27,475
Macatawa Bank	10.58%	8/7/06	-	7,200	(1,777)	5,423	2,350
Total governmental activities			<u>\$ 611,867</u>	<u>\$ 7,200</u>	<u>\$(97,061)</u>	<u>\$ 522,006</u>	<u>\$ 98,006</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 98,006	\$ 19,707
2006	31,064	14,480
2007	29,927	13,273
2008	30,513	12,219
2009	31,598	11,134
2010-2014	175,671	37,989
2015-2019	<u>125,227</u>	<u>7,091</u>
Total	<u>\$ 522,006</u>	<u>\$ 115,893</u>

VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 9 – RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance to cover all risks of losses. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 10 – CONTINGENT LIABILITIES

The Village is involved in a lawsuit with the Trustees of the Dutcher Lodge No. 193, of Free and Accepted Masons, Allegan County. The lawsuit is a breach of contract action over the renovation and repair of the Dutcher Lodge conveyed to the Village. The lawsuit is in the discovery phase and management cannot speculate the outcome. The amount in controversy is approximately \$25,000.

NOTE 11 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description

The Village's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Village participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. The MERS Retirement Board, establishes and amends the benefits provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement Systems of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The Village is required to contribute at an actuarially determined rate; the rate as of June 30, 2004 is approximately 7.84-12.53% of annual covered payroll. Employees are currently not required to contribute to the Plan. The contribution requirements of the Village are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

Annual Pension Cost

For the year ended June 30, 2004, the Village's annual pension cost of \$58,580 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions includes (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Village's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis over 30 years.

VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 11 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (CONTINUED)

Three year trend information as of June 30 follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Annual pension cost	\$ 58,580	\$ 56,742	\$ 54,308
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Actuarial value of assets	\$ 910,246	\$ 807,542	\$ 741,519
Actuarial accrued liability	\$ 1,148,309	\$ 959,299	\$ 910,437
Unfunded AAL	\$ 238,063	\$ 151,757	\$ 168,918
Funded ratio	79%	84%	81%
Covered payroll	\$ 629,531	\$ 582,811	\$ 590,765
UAAL as a percentage of covered payroll	38%	26%	29%

NOTE 12 – DEFERRED COMPENSATION PLAN

The Village Council offers all Village employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans are held in trust by a custodian, as described in IRC Section 457 (g), for the exclusive benefit of the participants and their beneficiaries, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian for the investment of the assets held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in Village's financial statements.

NOTE 13 – RESTATEMENT OF RETAINED EARNINGS/FUND BALANCE

Restatements

As of and for the year ended June 30, 2004 the Village implemented the following Governmental Accounting Standards Board pronouncements:

Statements

No. 33	Accounting and Financial Reporting for Nonexchange Transactions
No. 34	Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments
No. 36	Recipient Reporting for Certain Shared Nonexchange Revenues – An Amendment of GASB No. 33
No. 37	Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus
No. 38	Certain Financial Statement Note Disclosures
No. 40	Deposit and Investment Risk Disclosures
No. 41	Budgetary Comparison Schedules – Perspective Differences

VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 13 – RESTATEMENT OF RETAINED EARNINGS/FUND BALANCE (CONTINUED)

Interpretation

No. 6 Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The Village is required to implement the new requirements no later than the fiscal year ending June 30, 2004.

The more significant of the changes required by the new standards include:

- Management's discussion and analysis;
- Basic financial statements that include:
- Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
- Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
- Schedules to reconcile the fund financial statements to the government-wide financial statements;
- Budgetary schedules;
- Notes to the basic financial statements;
- Required supplementary information, including certain budgetary schedules.

Primary Government

As a result of implementing these pronouncements for the fiscal year ended June 30, 2004, the following restatements were made to beginning net asset accounts:

Government-wide financial statements – Beginning net assets for governmental activities was determined as follows:

Fund balances of governmental funds as of June 30, 2003	\$ 1,619,388
Add: governmental capital assets, including general fixed assets as of June 30, 2003	1,039,665
Deduct: accumulated depreciation as of June 30, 2003 on above governmental capital assets	(403,543)
Deduct: long-term debt as of June 30, 2003	(611,867)
Deduct: other changes in accruals	<u>(15,220)</u>
Governmental activities net assets, restated, as of June 30, 2003	<u>\$ 1,628,423</u>

VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 14 – BUILDING DEPARTMENT

Revenues	
Inspections fees	\$ 66,094
Expenditures	
Contract labor	<u>(56,654)</u>
Excess of revenues over expenditures	\$ 9,440
Cumulative excess of revenues over expenditures June 30, 2003	<u>25,744</u>
Cumulative excess of revenues over expenditures June 30, 2004	<u>\$ 35,184</u>

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF DOUGLAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE -BUDGET AND ACTUAL-
GENERAL FUND
JUNE 30, 2004

	Original <u>Budget</u>	Final Amended <u>Budget</u>
REVENUES		
Taxes and special assessments	\$ 614,108	\$ 564,017
Licenses and permits	88,500	87,675
State shared revenues	123,000	113,400
Contributions from local units	369,600	362,998
Grant revenue	13,900	13,900
Charges for services	98,920	227,188
Fines	6,600	4,000
Interest	5,300	2,010
Other revenue	<u>-</u>	<u>60,950</u>
 TOTAL REVENUES	 <u>\$ 1,319,928</u>	 <u>\$ 1,436,138</u>
EXPENDITURES		
Legislative	<u>\$ 8,300</u>	<u>\$ 7,949</u>
General government		
Manager	\$ 29,850	\$ 31,954
Clerk - treasurer	96,700	89,937
Legal and accounting	32,000	30,440
Building and grounds	124,000	134,890
Insurance - bonds	29,000	36,023
Employee benefits	109,650	109,636
Payroll taxes	24,900	26,000
Other	<u>-</u>	<u>1,978</u>
Total general government	<u>\$ 446,100</u>	<u>\$ 460,858</u>
Public safety		
Police	\$ 723,128	\$ 731,953
Planning and zoning	<u>77,100</u>	<u>96,300</u>
Total public safety	<u>\$ 800,228</u>	<u>\$ 828,253</u>
Public works - highway and streets	<u>\$ 83,100</u>	<u>\$ 98,083</u>

<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 555,373	\$ (8,644)
89,094	1,419
113,212	(188)
366,748	3,750
4,859	(9,041)
139,076	(88,112)
5,764	1,764
1,239	(771)
<u>65,868</u>	<u>4,918</u>
 \$ 1,341,233	 \$ (94,905)
 <u>\$ 7,678</u>	 <u>\$ 271</u>
 \$ 28,265	 \$ 3,689
87,134	2,803
33,949	(3,509)
157,114	(22,224)
36,023	-
101,323	8,313
23,202	2,798
<u>1,253</u>	<u>725</u>
 \$ 468,263	 \$ (7,405)
 \$ 696,879	 \$ 35,074
<u>91,582</u>	<u>4,718</u>
 \$ 788,461	 \$ 39,792
 <u>\$ 74,304</u>	 <u>\$ 23,779</u>

VILLAGE OF DOUGLAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE -BUDGET AND ACTUAL-
GENERAL FUND (CONTINUED)
JUNE 30, 2004

	Original <u>Budget</u>	Final Amended <u>Budget</u>
EXPENDITURES (CONTINUED)		
Recreation and cultural		
Community relations	\$ 7,300	\$ 3,100
Parks and recreation	<u>44,900</u>	<u>38,466</u>
Total recreation and cultural	<u>\$ 52,200</u>	<u>\$ 41,566</u>
TOTAL EXPENDITURES	<u>\$ 1,389,928</u>	<u>\$ 1,436,709</u>
(DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	<u>\$ (70,000)</u>	<u>\$ (571)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	\$ 70,000	\$ 22,978
Transfers out	<u>-</u>	<u>(8,507)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 70,000</u>	<u>\$ 14,471</u>
NET CHANGE IN FUND BALANCE	\$ -	\$ 13,900
FUND BALANCE - JULY 1, 2003	<u>124,209</u>	<u>124,209</u>
FUND BALANCE - JUNE 30, 2004	<u>\$ 124,209</u>	<u>\$ 138,109</u>

<u>Actual</u>	Variance Favorable (Unfavorable)
\$ 18,066	\$ (14,966)
<u>47,816</u>	<u>(9,350)</u>
\$ 65,882	\$ (24,316)
\$ 1,404,588	\$ 32,121
<u>\$ (63,355)</u>	<u>\$ (62,784)</u>
\$ -	\$ (22,978)
<u>-</u>	<u>8,507</u>
\$ -	\$ (14,471)
\$ (63,355)	\$ (77,255)
<u>124,209</u>	<u>-</u>
<u>\$ 60,854</u>	<u>\$ (77,255)</u>

VILLAGE OF DOUGLAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE -BUDGET AND ACTUAL-
GENERAL HIGHWAY FUND
JUNE 30, 2004

	Original <u>Budget</u>	Final Amended <u>Budget</u>
REVENUES		
Taxes and special assessments	\$ 223,449	\$ 223,449
Interest	<u>6,300</u>	<u>6,300</u>
TOTAL REVENUES	<u>\$ 229,749</u>	<u>\$ 229,749</u>
EXPENDITURES		
Public works		
Contractual administration	\$ 20,000	\$ 20,000
Contractual engineering	15,000	15,000
Repairs and maintenance	-	-
Capital projects	<u>194,749</u>	<u>194,749</u>
Total public works	<u>\$ 229,749</u>	<u>\$ 229,749</u>
TOTAL EXPENDITURES	<u>\$ 229,749</u>	<u>\$ 229,749</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>
NET CHANGE IN FUND BALANCE	\$ -	\$ -
FUND BALANCE - JULY 1, 2003	<u>547,942</u>	<u>547,942</u>
FUND BALANCE - JUNE 30, 2004	<u>\$ 547,942</u>	<u>\$ 547,942</u>

<u>Actual</u>	Variance Favorable (Unfavorable)
\$ 306,357	\$ 82,908
<u>2,011</u>	<u>(4,289)</u>
\$ 308,368	\$ 78,619
\$ -	\$ 20,000
14,783	217
619	(619)
<u>210,586</u>	<u>(15,837)</u>
\$ 225,988	\$ 3,761
\$ 225,988	\$ 3,761
\$ 82,380	\$ 82,380
\$ 82,380	\$ 82,380
<u>547,942</u>	<u>-</u>
\$ 630,322	\$ 82,380

VILLAGE OF DOUGLAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE -BUDGET AND ACTUAL-
WATER AND SEWER REVOLVING FUND
JUNE 30, 2004

	Original Budget	Final Amended Budget
REVENUES		
Charges for services	\$ -	\$ -
Interest	<u>-</u>	<u>-</u>
TOTAL REVENUES	\$ <u>-</u>	\$ <u>-</u>
EXPENDITURES		
Public works	\$ <u>-</u>	\$ <u>-</u>
TOTAL EXPENDITURES	\$ <u>-</u>	\$ <u>-</u>
EXCESS OF REVENUES OVER EXPENDITURES	\$ <u>-</u>	\$ <u>-</u>
NET CHANGE IN FUND BALANCE	\$ -	\$ -
FUND BALANCE - JULY 1, 2003	<u>325,850</u>	<u>325,850</u>
FUND BALANCE - JUNE 30, 2004	<u>\$ 325,850</u>	<u>\$ 325,850</u>

<u>Actual</u>	Variance Favorable (Unfavorable)
\$ 84,721	\$ 84,721
<u>4,614</u>	<u>4,614</u>
\$ <u>89,335</u>	\$ <u>89,335</u>
 \$ 55,640	 \$ (55,640)
<u>\$ 55,640</u>	<u>\$ (55,640)</u>
 \$ 33,695	 \$ 33,695
\$ 33,695	\$ 33,695
 <u>325,850</u>	 <u>-</u>
 <u>\$ 359,545</u>	 <u>\$ 33,695</u>

ADDITIONAL INFORMATION

VILLAGE OF DOUGLAS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>Special Revenue Funds</u>			
	<u>Major Streets</u>	<u>Local Streets</u>	<u>Police Training Fund</u>	<u>Douglas Historic Preservation</u>
ASSETS				
Cash and cash equivalents	\$ 44,368	\$ 157,605	\$ 8,000	\$ 11,921
Receivables from other governments	<u>13,943</u>	<u>6,859</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 58,311</u>	<u>\$ 164,464</u>	<u>\$ 8,000</u>	<u>\$ 11,921</u>
LIABILITIES				
Accounts payable	<u>\$ -</u>	<u>\$ 707</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL LIABILITIES	<u>\$ -</u>	<u>\$ 707</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES				
Unreserved				
Undesignated	<u>\$ 58,311</u>	<u>\$ 163,757</u>	<u>\$ 8,000</u>	<u>\$ 11,921</u>
TOTAL FUND BALANCES	<u>\$ 58,311</u>	<u>\$ 163,757</u>	<u>\$ 8,000</u>	<u>\$ 11,921</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 58,311</u>	<u>\$ 164,464</u>	<u>\$ 8,000</u>	<u>\$ 11,921</u>

<u>Debt Service</u>			
<u>Schultz Park</u>	<u>Union Street</u>	<u>Water Bond</u>	<u>Total Non-Major Funds</u>
\$ 5,537	\$ 3,134	\$ -	\$ 230,565
<u>-</u>	<u>-</u>	<u>-</u>	<u>20,802</u>
<u>\$ 5,537</u>	<u>\$ 3,134</u>	<u>\$ -</u>	<u>\$ 251,367</u>
\$ -	\$ 70	\$ -	\$ 777
<u>-</u>	<u>70</u>	<u>-</u>	<u>777</u>
\$ 5,537	\$ 3,064	\$ -	\$ 250,590
<u>5,537</u>	<u>3,064</u>	<u>-</u>	<u>250,590</u>
<u>\$ 5,537</u>	<u>\$ 3,134</u>	<u>\$ -</u>	<u>\$ 251,367</u>

VILLAGE OF DOUGLAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2004

	Special Revenue Funds			
	Major <u>Streets</u>	Local <u>Streets</u>	Police Training <u>Fund</u>	Douglas Historic <u>Preservation</u>
REVENUES				
Taxes and special assessments	\$ -	\$ 153,409	\$ -	\$ -
State shared revenues	82,159	40,356	-	-
Grant revenue	-	-	-	-
Charges for services	-	-	-	-
Interest	244	94	26	37
Other revenue	-	-	575	13,893
	<u>-</u>	<u>-</u>	<u>575</u>	<u>13,893</u>
TOTAL REVENUES	<u>\$ 82,403</u>	<u>\$ 193,859</u>	<u>\$ 601</u>	<u>\$ 13,930</u>
EXPENDITURES				
Current operating				
Public safety	\$ -	\$ -	\$ 760	\$ -
Public works	88,880	58,198	-	-
Recreation and cultural	-	-	-	11,522
Debt service				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay	-	16,696	-	-
	<u>-</u>	<u>16,696</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>\$ 88,880</u>	<u>\$ 74,894</u>	<u>\$ 760</u>	<u>\$ 11,522</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (6,477)</u>	<u>\$ 118,965</u>	<u>\$ (159)</u>	<u>\$ 2,408</u>
OTHER FINANCING USES				
Transfers out	\$ -	\$ -	\$ -	\$ -
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
NET CHANGE IN FUND BALANCES	<u>\$ (6,477)</u>	<u>\$ 118,965</u>	<u>\$ (159)</u>	<u>\$ 2,408</u>
FUND BALANCES - JULY 1, 2003	<u>64,788</u>	<u>44,792</u>	<u>8,159</u>	<u>9,513</u>
FUND BALANCES - JUNE 30, 2004	<u>\$ 58,311</u>	<u>\$ 163,757</u>	<u>\$ 8,000</u>	<u>\$ 11,921</u>

		<u>Debt Service</u>	
<u>Schultz</u> <u>Park</u>	<u>Union</u> <u>Street</u>	<u>Water</u> <u>Bond</u>	<u>Total</u> <u>Non-Major</u> <u>Funds</u>
\$ -	\$ -	\$ -	\$ 153,409
-	-	-	122,515
23,140	-	-	23,140
7,307	4,090	-	11,397
23	9	-	433
-	-	-	14,468
<u>\$ 30,470</u>	<u>\$ 4,099</u>	<u>\$ -</u>	<u>\$ 325,362</u>
\$ -	\$ -	\$ -	\$ 760
-	-	-	147,078
5,234	2,711	-	19,467
-	-	-	-
-	-	-	-
<u>48,460</u>	<u>-</u>	<u>-</u>	<u>65,156</u>
<u>\$ 53,694</u>	<u>\$ 2,711</u>	<u>\$ -</u>	<u>\$ 232,461</u>
<u>\$ (23,224)</u>	<u>\$ 1,388</u>	<u>\$ -</u>	<u>\$ 92,901</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (267,666)</u>	<u>\$ (267,666)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (267,666)</u>	<u>\$ (267,666)</u>
<u>\$ (23,224)</u>	<u>\$ 1,388</u>	<u>\$ (267,666)</u>	<u>\$ (174,765)</u>
<u>28,761</u>	<u>1,676</u>	<u>267,666</u>	<u>425,355</u>
<u>\$ 5,537</u>	<u>\$ 3,064</u>	<u>\$ -</u>	<u>\$ 250,590</u>

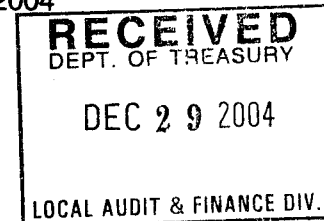


FERRIS, BUSSCHER & ZWIERS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

COPY

Melvin D. Busscher, CPA
James L. Zwiars, CPA, MBA
William D. Borgman, CPA, MST
Douglas W. Rotman, CPA

October 28, 2004



Village Council
Village of Douglas
Allegan County, Michigan

Council Members:

Thank you for the opportunity to be of service to you in performing an audit of the financial statements of Village of Douglas for the year ended June 30, 2004.

In planning and performing our audit of the financial statements of the Village of Douglas for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Village of Douglas' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

Reportable Conditions

Budget Violations

The Village violated the Budget Act for the year ended June 30, 2004 by reporting unfavorable budget variances in the General Fund and several special revenue funds. In addition, a budget was not prepared for the Water and Sewer Revolving special revenue fund. The purpose of the Budget Act is to require that all local units of government in Michigan adopt balanced budgets, to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process. This act specifically states that a local unit cannot expend resources without the appropriation by the legislative body. We recommend that management monitor and control

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expenditures of public monies by reviewing budget verses actual revenue and expenditure reports. If there are implications that expenditures will exceed the budget, the legislative body should adopt a resolution to amend the budget prior to the disbursement. The appropriations act is the key to controlling the finances of the Village.

Cash Management

The Village maintains one physical checking account for all of the individual funds' cash. During the fiscal year, we noted errors in posting revenues and expenditures to the correct fund. Although the cash was correctly deposited into the checking account, the errors resulted in misstated cash and revenues/expenditures in a number of funds. It is essential that the nature of the revenue or expenditure be identified prior to posting into the general ledger. The unadjusted trial balance at June 30, 2004 showed a negative cash balance in the General Fund, which should have come to management's attention immediately. These errors were corrected during our audit via journal entries, however, the Water and Sewer Revolving fund correctly ended with a negative cash balance. Cash management is crucial to the financial stability of the Village and is to be monitored closely. One area of available cash for the Sewer Bond Fund and Water and Sewer Revolving Fund are the funds held in trust by Kalamazoo Lake Water and Sewer Authority. Management should review the ending cash balances held with the Authority and make withdrawals as deemed necessary.

Accrued Compensated Absences

During our detailed testing of accrued compensated absences, we examined ADP's report showing available hours by employee. The Village has policies in place that limit the number of hours accrued for each personnel department. We noted that several of the police officers reported sick hours in excess of what is allowed. Also, ADP reported negative sick or vacation hours for several employees. We recommend that management review the Village personnel policies and adjust the ADP reporting of accrued compensated absences to ensure that employees are not approved more paid time off than permitted.

Segregation of Duties

The staff and management positions have changed significantly during the last fiscal year. It is important to continually examine the internal control structure of the Village, especially when changes in duties and positions happen simultaneously. Effective segregation of duties occurs when the following functions are divided among different individuals (examples in parentheses):

- Custody of assets (receiving cash, making deposits, control of blank checks).
- Recording transactions in the General Ledger (bank reconciliation, posting journal entries, preparing disbursements).
- Authorization and approval (reviewing reconciliations or journal entries, additional check signers, approving invoices for payment).

Within the Village's statutory limits, we recommend that Council consider how the various functions can be divided to maintain an appropriate level of checks and balances over all funds. Internal controls should be established in order to properly receipt, document and record financial transactions. We also recommend that the authorized check signers at the local bank be updated due to the recent change in council members, management and staff.

Other Comments and Recommendations

Investment Policy

We noted that the Village has not invested any surplus cash into higher yield investment vehicles. Currently, the Village receives less than one percent return on deposits. We recommend that management review the funds that have surplus cash and consider investing within the guidelines of the Village's investment policy in order to maximize returns.

Creation and Closing of Funds

The Village maintains a General Fund, two debt service funds, and eight special revenue funds. During the fiscal year, the Water Sewer Bond fund was no longer necessary and was partially transferred into the incorrect fund. The state provides explicit guidance on the transfer of residual debt service funds into other funds. First, the proceeds go to unlimited tax levy debt service funds, second to limited tax levy debt service funds, and lastly to the general fund. We corrected the closing of the Water Bond Fund to the Sewer Bond Fund, a limited tax levy debt service fund. Upon the completion of the bond payments in the Sewer Bond Fund, by June 30, 2005, the residual cash can be transferred to the General Fund.

Management should review the necessity of the Schultz Park Launch Ramp Fund and Union Street Launch Ramp Fund and consider closing them to the General Fund. Special revenue funds should be used to track reserved or restricted monies, and ramp fees do not meet that requirement.

During the fiscal year, the accounting staff utilized three additional, non-approved funds in the general ledger for spotlight grant, DDA, and holiday lighting. These balances were transferred back to the General Fund in accordance with prior year's reporting. If the Village needs additional funds, the legislative body needs to approve the creation of the fund and adopt a budget if it is a special revenue fund.

Accrual Basis Financial Reporting

The Village is required to present its year-end financial results and annual budgets on a modified accrual basis in accordance with Generally Accepted Accounting Principles. This means that revenues and expenses are recorded when they are earned or incurred rather than when the cash payments are received or disbursed. During the year, the Village generally maintains its records on a cash basis by recording transactions when the cash is received and as payments are made. In conjunction with the year-end audit, we assist the Village in preparing the necessary journal entries to make the conversion to modified accrual basis. These adjustments often include the following items: accrued wages, intergovernmental receivables, grant receivables, prepaid expenses and accounts payable. We recommend that the Village consider making modified accrual entries on a monthly basis to ensure that the interim financial data is in accordance with Generally Accepted Accounting Principles and materially consistent with the year-end presentation.

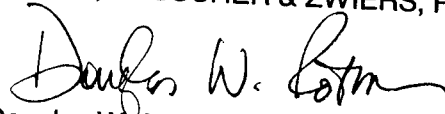
GASB 34 Accounting

In order to efficiently track capital expenditures accounted for on the accrual basis statements as increases in fixed assets, we recommend that the Village utilize the capital outlay expenditure accounts solely for items over the \$3,000 threshold. This procedure will limit the search for capitalizable items when GASB 34 adjustments are required at the end of the fiscal year.

This report is intended solely for the information and use of the Village Council and management. If you have any questions regarding the financial statements or the above recommendations and suggestions, we would be pleased to discuss them with you.

Sincerely,

FERRIS, BUSSCHER & ZWIERS, P.C.

A handwritten signature in cursive script, appearing to read "Douglas W. Rotman".

Douglas W. Rotman, C.P.A.

DWR\kc